

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of

PUGET SOUND ENERGY, INC.

For Approval of Certain Property
Transfers in Connection with Master
Service Agreement with Quanta
Services, Inc.

Docket No. UE-_____

APPLICATION

1. Pursuant to RCW 80.12.020 and WAC 480-143-120, Puget Sound Energy, Inc. (the "Company" or "PSE") requests an order from the Washington Utilities and Transportation Commission (the "Commission") authorizing the Company to lease certain real property, to license the use of certain Company assets, and to transfer certain equipment and vehicles to Quanta Services, Inc. ("Quanta"). PSE has entered into a Master Service Agreement with Quanta (the "Quanta MSA") whereby PSE has outsourced certain of its utility construction, operations and maintenance services to Quanta. Previous transactions between the Company and Quanta involving other leases, licenses and transfers of equipment and vehicles to Quanta were the subject of an earlier proceeding before the Commission under Docket No. UE-010824. Please direct all correspondence related to this application as follows:

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2. This application may bring into issue the following statutes and rules:

RCW 80.12.020, WAC 480-143-120 and WAC 480-143-180.

3. By this Application, the Company seeks Commission authorization to:

- (a) Lease to Quanta certain real property, as described in the Lease Agreements attached as Attachments 2 through 12 filed herewith;
- (b) License Quanta to use certain PSE Assets, as described in the Quanta MSA and Lease Agreements; and
- (c) Transfer to the Quanta certain vehicles, equipment, and other tangible personal property, as described in the Agreement for Purchase and Sale of Personal Property attached as Attachment 1.

4. Included herewith as Attachments to this Application are the following agreements and other documents:

- 1. Agreement for Purchase and Sale of Personal Property dated March 1, 2002
- 2. Bellingham Service Center Lease Agreement dated March 1, 2002
- 3. Issaquah Service Center Lease Agreement dated March 1, 2002
- 4. Kent Fleet Service Center Lease Agreement dated March 1, 2002
- 5. Kitsap Service Center Lease Agreement dated March 1, 2002
- 6. Kittitas Service Center Lease Agreement dated March 1, 2002
- 7. North King Service Center Lease Agreement dated March 1, 2002
- 8. Olympia Service Center Lease Agreement dated March 1, 2002
- 9. Port Townsend Service Center Lease Agreement dated March 1, 2002
- 10. Puyallup Service Center Lease Agreement dated March 1, 2002
- 11. Skagit Service Center Lease Agreement dated March 1, 2002
- 12. Whidbey Service Center Lease Agreement dated March 1, 2002
- 13. SEC Form 10-Q/A for the quarterly period ended September 30, 2001;

14. Summary of Quanta MSA; and

15. Proposed Commission Order.

5. The Company's current financial statements (as set forth in the Company's SEC Form 10-Q for the quarterly period ended September 30, 2001) are included as Attachment 13 to satisfy the requirement of WAC 480-143-120.

6. Each of the leases provides:

Notwithstanding anything contained herein, [the Company] and [Quanta] acknowledge and agree that this Lease Agreement will have no force or effect unless and until [the Company] has obtained authorization to do so by the [Commission] and that no interests are conveyed or will be conveyed and no consideration exchanged unless and until such [Commission] approval is obtained.

7. The Agreement for Purchase and Sale of Personal Property provides:

Title to the Personal Property shall be conveyed, and the Purchase Price tendered, after [the Company] has obtained . . . the authorization of the [Commission]. [The Company] and [Quanta] acknowledge and agree that, notwithstanding anything contained herein, this Agreement shall have no force and effect unless and until [the Company] obtains authorization of the [Commission] and that no interests are or will be conveyed and no consideration exchanged unless and until such [Commission] approval is obtained.

I. BACKGROUND

A. Overview

8. The transfers for which this application seek approval are in furtherance of efforts the Company undertook beginning last year to outsource some of its utility construction, operations and maintenance service functions previously performed by the Company to Quanta pursuant to the Quanta MSA.

9. This is the second request for the Commission's approval of transfers under the Quanta MSA. The first request was filed last June under Docket No. UE-010824. Under the Quanta MSA, Quanta provides natural gas and electric new customer construction services in

Whatcom, Skagit Island, Jefferson, Kitsap, Kittitas, King (excluding greater Seattle), Pierce (excluding the City of Tacoma), Thurston and Lewis counties. Quanta is the parent of a regional company, Potelco. Potelco has done maintenance and construction work for PSE for decades, and is very familiar with the Company's electric and natural gas systems.

10. To further implement the program and ensure smooth transition, the lease transactions for which the Commission's approval is now sought provide for the Company to lease space in a number of its service centers to Quanta. Quanta would pay nominal rent for the use of such facilities and Quanta also will be responsible for its percentage portion of the variable costs at each location. The Company will license to Quanta its computer and telecommunications hardware and software at each facility leased by Quanta.

11. The Quanta MSA contemplates that Quanta may require access to certain PSE Sites and use of certain PSE Assets and PSE Materials to assist with the transition of work from PSE to Quanta and in Quanta's performance of the services. (See, e.g., Quanta MSA §§ 5.5, 5.6, 5.7.)

12. However, in addition, because Quanta has assumed responsibility under the transactions to perform a number of activities formerly performed by the Company, certain equipment formerly used by the Company to perform those operations is no longer necessary or useful to the Company. Some of that equipment was identified last year and was the subject of the earlier proceeding, Docket No. UE-010824. Under the transactions for which the Commission's approval is now sought, the Company will transfer to Quanta additional trucks and other equipment, tools and parts that are no longer needed by the Company as a result of the outsourcing.¹

¹ In several instances earlier this year, as employees transferred from PSE to Quanta and as specific needs arose, record title to some vehicles that were no longer necessary or useful to the Company to perform the Company's duties to the public was signed over to Quanta. None of these other vehicles had a value of greater than .01% of the Company's last rate base for electric utility service. PSE will receive fair market value for these vehicles. Some of the vehicles are subject to leases. However, the Company has not yet invoiced or been paid for these vehicles. They have been

13. As more fully explained in Docket No. UE-010824, PSE has retained oversight and ultimate control over the quality and performance standards for the services performed by Quanta. The transactions do not affect the relationship between the Company and its customers because the services performed by Quanta are transparent to the Company's customers. As noted above, employees responsible for "first contact" with customers and "first response" will remain as PSE employees. The Company has merely outsourced the provision of certain specific services to Quanta, a company devoted exclusively to the construction, operation and maintenance service of utility facilities.

B. Description of Quanta

14. Quanta is a Delaware corporation engaged in the business of providing engineering and construction services to the utility industry, including operation and maintenance of electric utility systems, engineering, project management, material management and administrative support. Quanta is an independent contractor that is not affiliated with or related to PSE. It has its own officers, directors and employees. Its headquarters are located at 14103 8th Street East, Sumner, Washington.

C. Description of the Quanta MSA

15. The Master Services Agreement between PSE and Quanta is summarized in Attachment 14 to this Application and is on file with the Commission in Docket No. UE-010824.

II. REQUESTED REGULATORY APPROVALS

A. Standard for Approval

16. The Washington rules or statutes that may apply to this Application include RCW 80.12.020, WAC 480-143-120 and WAC 480-143-180. RCW 80.12.020 provides that:

No public service company shall sell, lease, assign or otherwise dispose of the whole or any part of its franchises, properties or facilities whatsoever,

included in the list of vehicles subject to the Agreement for Purchase and Sale of Personal Property dated March 1, 2002, for which the Commission's transfer approval is sought in this proceeding.

which are necessary or useful in the performance of its duties to the public,
... without having secured from the commission an order authorizing it to
do so

(Emphasis added.) See also WAC 480-143-120. The standard for approval of a property transfer is set forth in WAC 480-143-170, which provides:

If, upon the examination of any application and accompanying exhibits, or upon a hearing concerning the same, the commission finds that the proposed transaction is not consistent with the public interest, it shall deny the application.

17. This has been interpreted by the Commission as a "no harm" standard:

The standard in our rule does not require the Applicants to show that customers, or the public generally, will be made better off if the transaction is approved and goes forward. In our view, Applicants' initial burden is satisfied if they at least demonstrate no harm to the public interest.

PacifiCorp/ScottishPower Merger Proceeding, Docket No. UE-981627, Third Supplemental Order (1999), p. 2; see also GTE/Bell Atlantic Merger Proceeding, Docket No. UT-981367, Third Supplemental Order (1999), p. 25.

18. Commission approval is not required to dispose of property that is not necessary or useful. However, under the Commission's rules, all property is necessary or useful unless the property items are: (1) substituted with or replaced by items of equal or greater value or useless; (2) surplus and unneeded assets for which full value is received; (3) obsolete; or (4) excluded from the public service company's rate base by commission order, or otherwise. WAC 480-143-180. A utility claiming that property is not necessary or useful must obtain a determination from the Commission to that effect if the property to be disposed of has a market value that exceeds the greater of 1% of the public service company's rate base (for the applicable utility service) last established by Commission order, or \$20,000. Id.

B. Approval of Property Transfers

19. PSE requests authorization to:

- (a) Lease to Quanta the real property described in the Lease Agreements, which are attached as Attachments 2 through 12.
- (b) License to Quanta the use of certain PSE Assets, as described in Section 5.7 of the Quanta MSA and the Lease Agreements.
- (c) Transfer to Quanta the equipment, components, parts and other items of tangible personal property described in the Agreement for Purchase and Sale of Personal Property, which is attached as Attachment 1. The combined purchase price for the transferred personal property is \$5,690,230.

20. PSE submits that the tangible personal property proposed to be transferred to Quanta--item (c) above--is not necessary or useful. PSE respectfully submits that the Company does not need or have a use for the personal property since it has outsourced the functions requiring use of such property. Quanta, on the other hand, needs the trucks and equipment in order to perform its duties under the Quanta MSA. It is appropriate for PSE to transfer the property to Quanta since Quanta will take on the task of performing the utility construction, maintenance and operations services for PSE.

21. Under the transfer instruments, the Company will receive full value for the property; the purchase price for each of the various vehicles and items of equipment was set according to the estimated fair market value for such property. Specifically, the NADA official used car and truck guide was used to determine the market value of cars and pick-up trucks. For one-ton trucks or larger and equipment the sales prices of vehicles and equipment sold through auctions sponsored by the Company or other parties over the last twelve months were used in the determination of the market value of vehicles and equipment transferred. For vehicles and equipment where no auction data was available, data obtained from Top Bid 2001, an after-market used equipment web page, and local vehicle dealer valuations were utilized in determining the market value.

22. Thus, this aspect of the transaction falls within the scope of WAC 480-143-180(2), as the Company is not disposing of necessary or useful property within the meaning of RCW 80.12.020 and WAC 480-143-180. Accordingly, in the first instance the Company seeks a

determination that the personal property is not necessary or useful. Alternatively, in the event the Commission determines that the personal property is necessary or useful, the Company respectfully requests authorization to transfer the personal property to Quanta, for the reasons set forth below.

23. The Company submits that granting the requested authorizations is consistent with the public interest. Highly specialized utility construction firms such as Quanta have become very competitive through consolidation, which allows them to offer a broad range of competitively priced services to utilities, and PSE is following a strategy of teaming up with the best unionized construction service providers in order to allow the Company to continue to improve the quality of service at the lowest cost to customers.

24. The transfers will not impair PSE's ability to provide electric service to the public. On the contrary, PSE anticipates that quality of service will improve. PSE is overseeing Quanta's operations to ensure that the quality of service standards to which PSE's customers have become accustomed will be maintained, if not improved. (Quanta MSA § 3.3.) Under the MSA, Quanta is required to perform at a level that ensures compliance with PSE's electric and gas tariffs and the regulations or orders issued by the Commission. (Quanta MSA § 3.2.) So, too, must Quanta submit a quality control program for PSE's review and approval. (Quanta MSA § 3.4.) The Quanta MSA requires ongoing progress meetings and reports and the establishment of operating committee and steering committee which includes PSE representatives. (Quanta MSA §§ 3.5, 3.6, 3.9, 12.2-12.3.3.) All of these requirements serve to safeguard the interests of the public.

C. Proposed Accounting Treatment

25. The Company proposes the following accounting treatment with respect to the transactions:

1. Transfer of Company-owned vehicles and equipment to Quanta

Upon transfer, the book value of vehicles and equipment will be debited to FERC Account No. 108-Accumulated Depreciation and retired (credited) from the appropriate FERC Plant

Accounts. The accrual for receipt of proceeds will consist of a salvage credit to FERC Account No. 108-Accumulated Depreciation and a debit to FERC Account No. 143-Miscellaneous Accounts Receivable.

2. Transfer of leased vehicles to Quanta

Upon transfer, the Company will pay the lessor, BLC, the remaining lease value of the vehicles. The entry for the payment will consist of a debit to FERC Account No. 184 - Clearing Account (Transportation) and a credit to FERC Account No. 131 - Cash. The accrual for receipt of proceeds from the Service Provider regarding the leased vehicles will be recorded by a debit to FERC Account No. 143 - Miscellaneous Accounts Receivable and a credit to FERC Account No. 184 - Clearing Account (Transportation). Approximately 50% of the amounts recorded to the Transportation Clearing Account are capitalized when cleared.

3. Transfer of tools to Quanta

Market value is used for these assets because it is not cost effective to inventory such tools and, as a result the book value is not known. Upon transfer, market value will be used to record a debit to FERC Account No. 143 - Miscellaneous Accounts Receivable and a credit to FERC Account No. 108 - Accumulated Depreciation will be recorded to reflect the salvage and accrue for the receipt of proceeds.

III. CONCLUSION

26. Puget Sound Energy requests that the Commission issue an order in the form shown on Attachment 15 hereto that:

- (a) Authorizes the Company to lease the real property to Quanta as provided in the Lease Agreements attached hereto;
- (b) Authorizes the Company to license Quanta to use certain PSE Assets as provided in the Quanta MSA and the Lease Agreements attached hereto; and
- (c) With respect to the personal property to be transferred to Quanta as provided in the Purchase and Sale Agreements attached hereto:

- (1) Determines that prior commission approval is not required because the proposed personal property transferred to Quanta is not necessary or useful under RCW 80.12.020 and WAC 480-143-120 and -180, or, in the alternative;
- (2) Authorizes the Company to transfer the personal property to Quanta.

DATED this _____ day of March, 2002.

PUGET SOUND ENERGY, INC.

By _____
George R. Pohndorf, Jr.
Director, Rates & Regulations

I, George R. Pohndorf, Jr., certify that the information this application includes is true and correct to the best of my information and belief under penalty of perjury as set forth in RCW 9A.72.085.

George R. Pohndorf, Jr.

LIST OF ATTACHMENTS

Attachment	Description
1.	Agreement with Quanta for Purchase and Sale of Personal Property dated March 1, 2002
2.	Bellingham Service Center Lease Agreement dated March 1, 2002
3.	Issaquah Service Center Lease Agreement dated March 1, 2002
4.	Kent Fleet Service Center Lease Agreement dated March 1, 2002
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14.	Summary of Quanta MSA
15.	Proposed Commission Order